

Message Text

PAGE 01 STATE 031052

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DRAFTED BY: EB:PHBOEKER/ARA:WDROGERS

S/S:MR LUERS

S:AADAMS

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FM SECSTATE WASHDC

TO AMCONSUL JERUSALEM IMMEDIATE

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TOSEC 77

E.O.#11652:N/A

TAGS:IDB

SUBJECT:ACTION MEMORANDUM: INTER-AMERICAN DEVELOPMENT BANK
REPLENISHMENT (S/S NO. 7502982)

FOR THE SECRETARY FROM ROGERS AND KATZ

1. PROBLEM: YOU HAVE RECEIVED A LETTER FROM BILL SIMON (TAB C) PROPOSING STATE-TREASURY AGREEMENT ON THE NEXT INTER-AMERICAN DEVELOPMENT BANK (IDB) REPLENISHMENT, FOLLOWED BY CONGRESSIONAL CONSULTATIONS BEGINNING FEBRUARY 17. THERE ARE TWO ISSUES: (1) SIMON WOULD LIKE TO PUT OFF INDEFINITELY ANY U.S. MOVE TO SELL THE U.S. FSO VETO, INCLUDING DEFERRING DISCUSSION OF THIS QUESTION IN OUR CONGRESSIONAL CONSULTATIONS; WE BELIEVE THE ISSUE SHOULD BE LEFT OPEN TO ALLOW FOR POSSIBLE CONGRESSIONAL CONSULTATIONS AS SOON AS WE FIND THAT IT WOULD BE BENEFICIAL TO OUR RELATIONS WITH LATIN AMERICA TO DO SO; (2) SIMON PROPOSES A REPLENISHMENT LEVEL OF DOLS. 1.8 BILLION; EB AGREES WHILE ARA DOES NOT.

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PAGE 02 STATE 031052

2. BACKGROUND/ANALYSIS: LAST SEPTEMBER YOU APPROVED OUR PROPOSED 1976-1978 IDB REPLENISHMENT STRATEGY, INCLUDING A RECOMMENDATION TO ATTEMPT TO "SELL" THE U.S. FSO VETO BY REDUCING OUR VOTING SHARE TO AT MOST 33.2 PERCENT.

3. U.S. VETO: THE PRESENT STATE OF RELATIONS WITH LATIN

AMERICA, PARTICULARLY THE MFM CONCESSION, WOULD MAKE THIS AN INOPPORTUNE TIME TO MAKE THE VETO SALE OFFER. SIMON SUGGESTS WAITING UNTIL APPROVAL OF THE NEXT REPLENISHMENT BY CONGRESS AND ENTRY OF THE NON-REGIONAL COUNTRIES INTO THE IDB. WE DISAGREE SINCE THIS COULD MEAN AT LEAST A ONE YEAR DELAY. INSTEAD, EB AND ARA RECOMMEND THAT WE KEEP THE QUESTION OPEN, SUBJECT TO CONDITIONS IN LATIN AMERICA AND THE MOOD OF THE CONGRESS. FOR EXAMPLE, IF WE FIND THAT LATIN AMERICA IS READY TO PUT UP THE RESOURCES REQUIRED TO REDUCE OUR VOTING SHARE BELOW THE VETO MARK, IT WOULD BE TIMELY TO RAISE THE ISSUE IN CONGRESSIONAL CONSULTATIONS.

4. REPLENISHMENT LEVEL: AT TLATELOLCO AND IN SUBSEQUENT MEETINGS WITH THE FOREIGN MINISTERS, YOU AFFIRMED OUR INTENTION TO SEEK AT LEAST TO MAINTAIN U.S. ASSISTANCE LEVELS. EB AND ARA AGREE THAT OUR TLATELOLCO COMMITMENT SHOULD BE INTERPRETED AS APPLYING TO A TOTAL U.S. AID LEVEL, AND NOT NECESSARILY TO INDIVIDUAL ITEMS, SUCH AS OUR IDB CONTRIBUTIONS. EB SEES NO NEED TO SEEK A HIGHER LEVEL THAN THAT PROPOSED BY SIMON, SINCE IT IS ADEQUATE TO IDB'S NEEDS AND MEETS A REASONABLE INTERPRETATION OF YOUR TLATELOLCO ASSURANCE. HOWEVER, ARA BELIEVES THAT THE LATINOS WOULD LIKELY REGARD OUR ACTION ON IDB REPLENISHMENT ITSELF AS A TEST OF YOUR COMMITMENT BECAUSE IT IS THE SINGLE MOST VISIBLE AND IMPORTANT CHANNEL FOR U.S. FUNDS TO THE REGION. IN ADDITION, ARA FEELS THAT IT WOULD BE EASIER TO SELL THE CONGRESS IF THE PROPOSED U.S. REPLENISHMENT NOT ONLY MET IDB'S NEEDS BUT ALSO MAINTAINED OUR 1970 PLEDGE LEVEL.

5. RECOMMENDATION: 1. THAT YOU AUTHORIZE FOR TRANSMITTAL THE LETTER ATTACHED AT TAB A (EB POSITION) AGREEING WITH SIMON'S TIMETABLE ON REPLENISHMENT CONSULTATIONS AND PROPOSED CONTRIBUTION LEVEL, BUT LEAVING OPEN THE VETO QUESTION. LIMITED OFFICIAL USE

PAGE 03 STATE 031052

TION.

APPROVE DISAPPROVE

6. 2. ALTERNATIVELY, THAT YOU AUTHORIZE THE LETTER AT TAB B (ARA POSITION), WHICH DIFFERS ONLY BY ADDING A PARAGRAPH TO THE SAME LETTER PROPOSING THAT THE U.S. CONTRIBUTION BE INCREASED BY DOLS. 24 MILLION TO MATCH THE U.S. COMMITMENT IN THE PREVIOUS REPLENISHMENT.

APPROVE DISAPPROVE

ATTACHMENTS: (A) EB LETTER; (B) ARA LETTER; (C) LETTER FROM SIMON.

7. TAB A; DRAFT LETTER. DEAR BILL: HENRY HAS CABLED THE FOLLOWING RESPONSE TO YOUR LETTER TO HIM ON IDB REPLENISHMENT.

8. "DEAR BILL: REGARDING YOUR LETTER ON THE UPCOMING INTER-AMERICAN DEVELOPMENT BANK REPLENISHMENT, I AGREE WITH THE PROPOSED TIMETABLE ON CONGRESSIONAL CONSULTATIONS AND IDB NEGOTIATIONS. YOUR STAFF SHOULD COORDINATE WITH TOM ENDERS AND BILL ROGERS CONCERNING THE APPROPRIATE STATE DEPARTMENT OFFICIALS TO PARTICIPATE IN THE DISCUSSIONS WITH CONGRESS.

9. "THE PRESENT DIFFICULTIES IN OUR RELATIONS WITH LATIN AMERICA MAKE THE DECISIONS AND NEGOTIATIONS AFFECTING THIS REPLENISHMENT PARTICULARLY IMPORTANT.

10. " WHILE PRESENT CIRCUMSTANCES ARE NOT PROPITIOUS FOR OFFERING TO SELL THE U.S. VETO IN THE FUND FOR SPECIAL OPERATIONS, I WANT TO LEAVE THIS ISSUE OPEN FOR FURTHER DISCUSSION. IT IS CERTAINLY CONCEIVABLE THAT WE MAY WISH TO MAKE A VETO SALE OFFER IN THE NEAR FUTURE IF IT WOULD HAVE A USEFUL FAVORABLE IMPACT ON OUR FOREIGN RELATIONS AND MAKE POSSIBLE SUBSTANTIAL NEW RESOURCES FOR LATIN AMERICAN DEVELOPMENT. WE SHOULD THEREFORE BE PREPARED TO DISCUSS IT WITH CONGRESS EVEN BEFORE THE REPLENISHMENT PROCESS IS CONCLUDED. SINCERELY, HENRY A. KISSINGER" WITH BEST REGARDS, INGERSOLL.

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PAGE 04 STATE 031052

11. TAB B; DRAFT LETTER. DEAR BILL: HENRY HAS CABLED THE FOLLOWING RESPONSE TO YOUR LETTER TO HIM ON IDB REPLENISHMENT.

12. "DEAR BILL: REGARDING YOUR LETTER ON THE UPCOMING INTER-AMERICAN DEVELOPMENT BANK REPLENISHMENT, I AGREE WITH THE PROPOSED TIMETABLE ON CONGRESSIONAL CONSULTATIONS AND IDB NEGOTIATIONS. YOUR STAFF SHOULD COORDINATE WITH TOM ENDERS AND BILL ROGERS CONCERNING THE APPROPRIATE STATE DEPARTMENT OFFICIALS TO PARTICIPATE IN THE DISCUSSIONS WITH CONGRESS.

13. " THE PRESENT DIFFICULTIES IN OUR RELATIONS WITH LATIN AMERICA MAKE THE DECISIONS AND NEGOTIATIONS AFFECTING THIS REPLENISHMENT PARTICULARLY IMPORTANT.

14. "WHILE PRESENT CIRCUMSTANCES ARE NOT PROPITIOUS FOR OFFERING TO SELL THE U.S. VETO IN THE FUND FOR SPECIAL OPERATIONS, I WANT TO LEAVE THIS ISSUE OPEN FOR FURTHER DISCUSSION. IT IS CERTAINLY CONCEIVABLE THAT WE MAY WISH TO MAKE A VETO SALE OFFER IN THE NEAR FUTURE IF IT WOULD HAVE A USEFUL FAVORABLE IMPACT ON OUR FOREIGN RELATIONS AND

MAKE POSSIBLE SUBSTANTIAL NEW RESOURCES FOR LATIN AMERICAN DEVELOPMENT. WE SHOULD THEREFORE BE PREPARED TO DISCUSS IT WITH CONGRESS EVEN BEFORE THE REPLENISHMENT PROCESS IS CONCLUDED.

15. " I AGREE THAT A DOLLAR 1.8 BILLION REPLENISHMENT LEVEL IS THE RIGHT ORDER OF MAGNITUDE. HOWEVER, IT POSES A PROBLEM

WHICH CAN BE EASILY REMEDIED. AT TLATELOLCO AND SINCE, I AFFIRMED OUR INTENTION TO SEEK AT LEAST TO MAINTAIN U.S. ASSISTANCE LEVELS. OUR PREVIOUS REPLENISHMENT PLEDGE WAS DOLLARS 1.824 BILLION, CONSEQUENTLY, I WOULD PROPOSE THE SAME FIGURE FOR OUR NEW REPLENISHMENT CONTRIBUTION, AND WOULD RELY ON OUR STAFFS TO WORK OUT THE NECESSARY ADJUSTMENTS. I BELIEVE THAT WE WOULD BE IN A STRONGER POSITION, IN DEALING WITH THE CONGRESS, IF WE POINTED OUT THAT OUR PROPOSED REPLENISHMENT LEVEL MATCHES OUR 1970 PLEDGE. SINCERELY, HAENRY A. KISSINGER" WITH BEST REGARDS, INGERSOLL.

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PAGE 05 STATE 031052

16. TAB C; LETTER FROM SECRETARY SIMON.

17. "FEBRUARY 7, 1975; DEAR HENRY, THE INTER-AMERICAN BANK WILL SOON BE UNABLE TO MAKE NEW LOANS UNLESS ITS CAPITAL IS REPLENISHED. THUS I PROPOSED PROCEEDING WITH OUR CONGRESSIONAL CONSULTATIONS AND NEGOTIATIONS WITHIN THE IDB DURING THE NEXT SIX WEEKS UNLESS YOU BELIEVE THE STATE OF OUR RELATIONS WITH LATIN AMERICA REQUIRES A POSTPONEMENT.

18. "THE BASIS FOR THE REPLENISHMENT WILL BE:

-- ORDINARY CAPITAL OF DOLS. 400 MILLION A YEAR FROM THE U.S. BEGINNING IN FY-76 IF THE LARGER LATIN COUNTRIES CONTRIBUTE TO FSO;

-- FSO CONTRIBUTIONS FROM THE U.S. OF DOLS. 200 MILLION A YEAR BEGINNING IN FY-77 (FY-76 WILL BE REQUIRED TO COMPLETE OUR LAST PLEDGE).

OTHER DETAILS OF THE REPLENISHMENT HAVE BEEN AGREED ON AN INTERAGENCY BASIS IN THE NAC.

19."THE ONE OUTSTANDING ISSUE IS THE DESIRE BY STATE TO OFFER"TO SELL THE U.S. VETO ON FSO OPERATIONS. I STRONGLY

URGE THAT WE DO NOT RAISE THIS ISSUE AT LEAST UNTIL CONGRESS HAS APPROVED THE NEXT REPLENISHMENT AND THE NON-REGIONAL COUNTRIES (EUROPE AND JAPAN) HAVE JOINED THE BANK. WE SHALL BE ASKING CONGRESS FOR CONSIDERADLY MORE THAN ONE-

THIRD OF THE CONVERTIBLE RESOURCES BEING PUT INTO THE FSO
AND MAINTENANCE OF OUR VETO IS THE ONE SURE WAY OF SEEING
THAT THESE HIGHLY CONCESSIONAL FUNDS ARE DIRECTED TO THE
POOREST PEOPLE AND THE POOREST COUNTRIES AS CONGRESS WISH-
ES. I WOULD POINT OUT THAT THE U.S. SHARE OF THE BANK'S
CAPITAL DROPS FROM ABOUT 40 PERCENT TO UNDER 35 PERCENT
WITH THE ENTRY OF THE NON-REGIONAL COUNTRIES. THUS THE
PROCESS OF REDUCING THE U.S. ROLE IN THE BANK HAS STARTED
AND YOU COULD POINT OUT TO YOUR LATIN COLLEAGUES THAT YOU
EXPECT THIS TREND TO CONTINUE IN THE FUTURE, PARTICULAR-
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PAGE 06 STATE 031052

LY AS THE LARGER AND RICHER LATIN COUNTRIES RESPOND TO THE
FINANCIAL NEEDS OF THEIR POORER NEIGHBORS.

20. "UNLESS YOU ADVISE ME TO THE CONTRARY I PLAN TO INI-
TIATE CONGRESSIONAL CONTACTS DURING THE WEEK OF FEBRUARY
17.

21. "WITH BEST REGARDS, SINCERELY YOURS, WILLIAM E. SIMON."
INGERSOLL

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